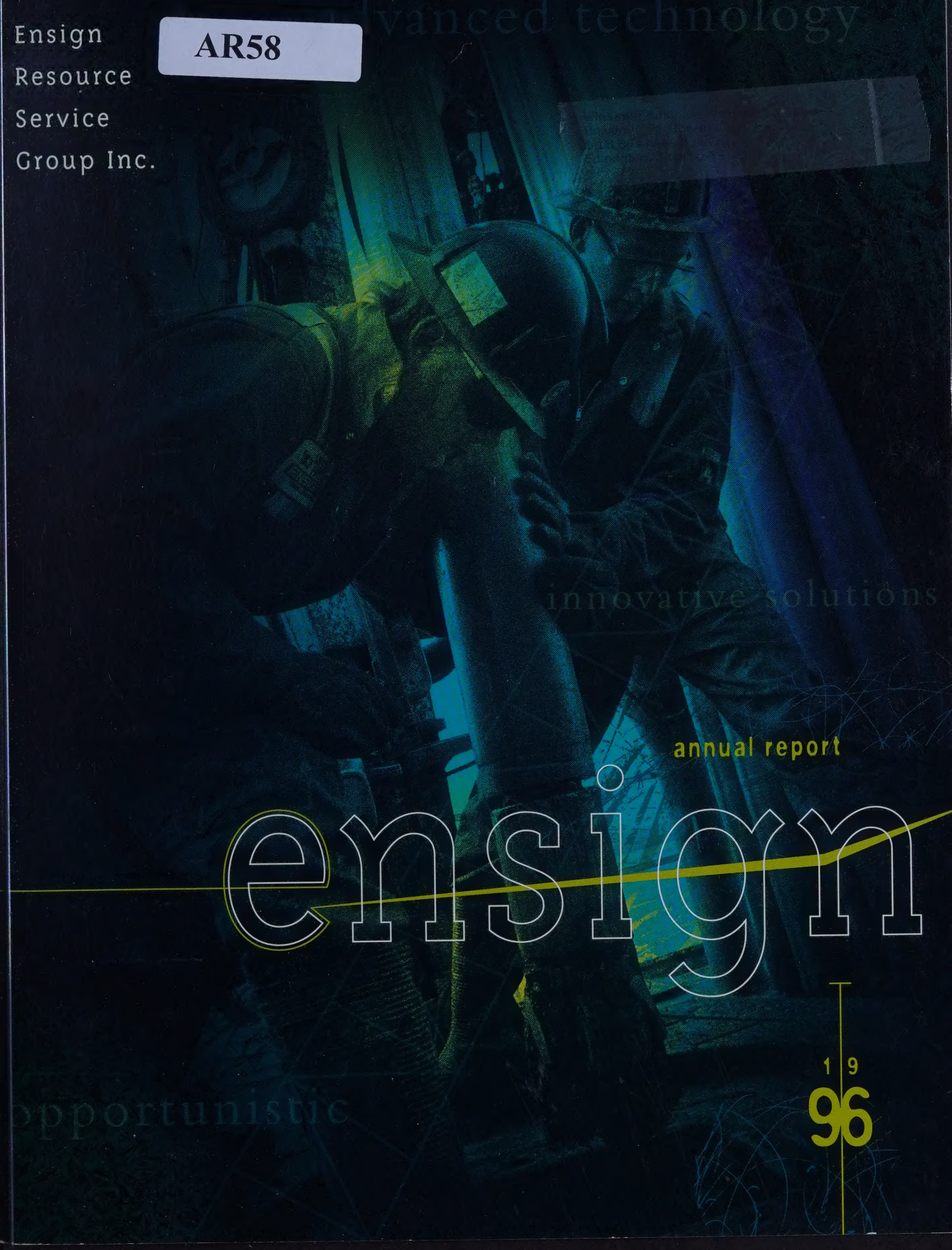
Ensign
Resource
Service
Group Inc.



annual report

ensign

1996

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CORPORATE PROFILE

Ensign Resource Service Group Inc. is an industry leader with a track record of growth in the oil and gas drilling and well servicing industry. The Corporation's common shares trade on The Toronto Stock Exchange under the symbol "ESI".

Ensign Resource Service Group Inc. is the public holding company of five operating divisions, Ensign Drilling, Tri-City Drilling, Caza Drilling, Rockwell Servicing and Leyen Oilwell Servicing. The Ensign Group is established in providing innovative and professional drilling and well servicing services to the Canadian market. Through its Caza Drilling division, the Corporation has expanded its contract drilling services to the Rocky Mountain region of the United States.

HIGHLIGHTS

($000s except per share data)	1996	1995	% Change
Financial			
Revenue	**245,429**	180,665	+36
Cash Flow	**38,176**	25,895	+47
Per Share	**1.88**	1.36	+38
Income	**25,828**	17,148	+51
Per Share	**1.27**	0.89	+43
Property and Equipment	**138,930**	62,066	+124
Shareholders' Equity	**84,722**	62,009	+37
Net Capital Expenditures	**83,185**	5,580	+1,391
Long-term Debt	**51,132**	7,489	+583
Average Number of Shares Outstanding	**20,319,543**	19,004,184	+7
Return on Shareholders' Equity	**30%**	28%	+7
Operating			
Number of Drilling Rigs	**134**	78	+72
Number of Well Servicing Rigs	**81**	74	+9
Wells Drilled (Canada)	**2,185**	1,768	+24
Well Drilled (U.S.)	**249**	98	+154
Rig Utilization Rate (%)			
Drilling (Canada)	**63.9**	61.1	+5
Drilling (U.S.)	**42.1**	24.2	+74
Well Servicing	**91.4**	77.2	+18

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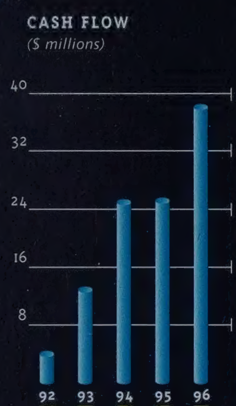
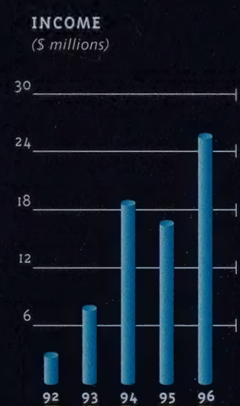
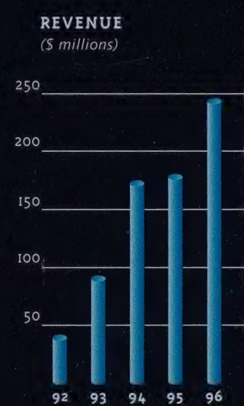
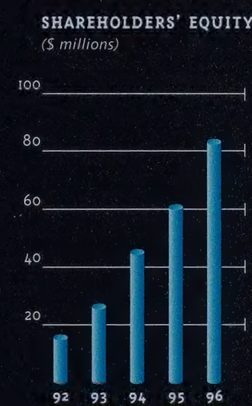








Five strong operating divisions provide a high level of service throughout Canada and the Rocky Mountain region of the United States

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held on Wednesday, May 28, 1997 at 2:30 pm at the Calgary Petroleum Club. All Shareholders are encouraged to attend, but if unable, we request the form of proxy be signed and returned.

By implementing an opportunistic growth strategy, the Ensign Group has established itself as one of North America's leading drilling and well servicing companies. The Ensign Group is pleased to report that it achieved record financial and operating results for the year ended December 31, 1996 due to several strategic acquisitions which expanded the Corporation's rig fleet, and buoyant commodity prices which created a tremendous demand for oil and gas drilling and well servicing services, particularly in Canada.

An expanded drilling and well servicing rig fleet combined with high activity levels in the Canadian oil and natural gas industry allowed the Ensign Group to achieve record financial results in 1996.

The Year in Review

During 1996, revenue increased 36 percent to $245.4 million compared to $180.7 million in 1995. Cash flow rose to $38.2 million ($1.88 per share) from $25.9 million ($1.36 per share) in 1995, representing a 47 percent increase. Net income improved 51 percent to $25.8 million or $1.27 per share in comparison with $17.1 million or $0.89 per share for the year ended December 31, 1995. The Corporation's overall financial performance during 1996 was somewhat tempered by several planned major maintenance projects throughout the year.

While 1995 was a strong year for the Canadian oil and gas service industry, activity levels in 1996 were even higher. The number of wells drilled in western Canada in 1996 increased 15 percent to 12,695 wells compared to 11,062 wells in 1995. This activity resulted in higher rig utilization rates and higher cash flow for the Corporation.

The Ensign Group's drilling divisions combined to drill 2,185 wells in Canada in 1996, reflecting a 24 percent increase over the 1,768 wells drilled in 1995. Based on this record activity and an expanded rig fleet, the Ensign Group's market share increased to 17 percent in 1996 from 16 percent in the previous year.

During 1996, the Corporation's United States operations, Caza Drilling Inc., continued to be impacted by low industry utilization rates and one-time costs associated with redeploying drilling rigs to areas in the Rocky Mountain region of the United States with higher activity levels. As expected, the results of Caza Drilling continue to be immaterial to the Ensign Group; however, the oil and gas industry in the United States is expected to improve and the Ensign Group is well-positioned to capitalize on opportunities as this market continues to gain strength.

Similar to the Corporation's drilling divisions, the Ensign Group's well servicing divisions enjoyed record operating levels in 1996. The well servicing divisions recorded a 38 percent increase in revenue hours in 1996 compared to 1995. These significant increases over the prior year are due to an expanded well servicing fleet and strong client support, combined with higher activity levels in the Canadian oil and natural gas industry.

An Expanded Rig Fleet

During 1996, the Ensign Group completed several strategic acquisitions, augmenting both its drilling and well servicing divisions. These acquisitions included:

August 23, 1996 – Caza Drilling acquired 19 operable drilling rigs from Kenting Apollo Drilling, Inc.

September 3, 1996 – The Ensign Group acquired seven well servicing rigs from K & S Well Servicing Ltd. – a private Alberta-based contractor.

October 25, 1996 – Ensign completed the largest transaction in its history with the acquisition of the Canadian oil and gas drilling assets of Simmons Drilling Corp. (27 drilling rigs).

November 15, 1996 – Caza Drilling acquired 14 operable drilling rigs and related assets operated by Cardinal Drilling Company, a subsidiary of Lynx Energy Services Corp.

In addition to these acquisitions, the Corporation's Ensign Drilling division constructed a slant drilling rig and the Rockwell Servicing division began construction of three new slant well servicing rigs supported by long-term commitments from major customers. All of these specialty rigs are now operational demonstrating the Corporation's strong commitment to developing and utilizing new technology.

As a result of these acquisitions and the construction of new rigs, the Ensign Group's rig fleet expanded not only in terms of size but also capability. Overall, the Corporation's drilling rig fleet grew to 134 rigs in 1996 (presently 139 rigs) compared to 78 drilling rigs in 1995. In terms of the Ensign Group's well servicing rig fleet, the Corporation operated 81 well servicing rigs at December 31, 1996, a nine per cent increase over the 74 rigs in 1995, and is now the second largest well servicing contractor in Canada.

During the year, cash flow increased to \$38 million, net income totalled \$26 million and revenues rose 36 percent over the previous year.

Technology and Safety Initiatives

The Ensign Group is a technology driven company. The Corporation is currently participating in a 50 percent joint venture project with Transocean Offshore in developing leading edge technology in coiled tubing drilling. This technology holds significant potential for the future and the Ensign Group will continue to report its progress with respect to this advanced technology and other initiatives in 1997.

The Ensign Group is committed to continually improving its training, maintenance and certification programs. As such, the Corporation has six employees on staff dedicated to safety and training. This team ensures that employee health, safety and environmental concerns are addressed on an ongoing basis and that they are incorporated into every plan, decision and activity of the Corporation.

Outlook

The Ensign Group believes that the high level of activity experienced in 1996 will continue throughout 1997. According to the Canadian Association of Oilwell Drilling Contractors, the number of wells drilled in Canada in 1997 is estimated to be 14,362 wells compared to 12,695 wells in 1996. Oil and gas exploration and development companies continue to maintain profitability and capital spending levels which, in turn, creates greater rig demand. Additionally, oil and gas pipeline projects and strong demand south of the border will continue to have a positive effect on the Canadian industry. Further, the Canadian well completion and servicing sector is expected to remain at high utilization rates and, with continued consolidation in this sector, pricing levels are expected to remain firm.

Based on improved commodity prices, the outlook for the U.S. market is positive. In addition, independent producers are becoming more active in the United States and, as a result, higher activity levels will lead to a stronger and more profitable drilling and well servicing industry in the United States.

The Ensign Group expects to achieve record profitability levels again in 1997. Strong future activity levels and the Corporation's ability to generate free cash flow will allow the Ensign Group to pursue future opportunities as they arise.

Acknowledgments

Within each division of the Corporation our continuous objective is to achieve higher standards of quality, service and safety. The Ensign Group's strong performance during the past year, and throughout our brief history, is attributable to the talents and extraordinary efforts of the many individuals who comprise our organization. We appreciate their efforts and thank them for their hard work.

On Behalf of the Board of Directors,

N. Murray Edwards, Chairman

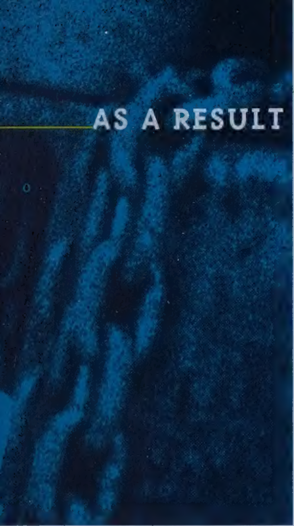
Selby Porter, President

April 21, 1997

THE ENSIGN GROUP'S YEAR-OVER-YEAR GROWTH IS ATTRIBUTABLE TO THE EFFORTS OF OUR EMPLOYEES

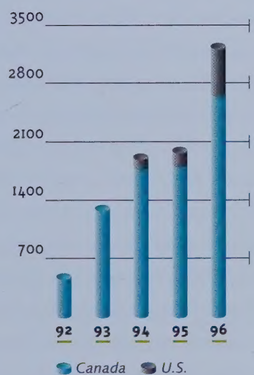
CAZA DRILLING WESLEY ALLEN • JAMES BARCLAY • JOHN BLAKE • JAMES BUNKER • HELEN CARDON • CURT CHILDERS • KELLY CLAUSSEN • SCOTT CLAUSSEN • CHARLIE COGDILL • IAN CRAIG • MELVIN CURTIS • MARY DUNMIRE • BRUCE EHLKE • WAYNE FISHER • RONNIE FOREMAN • WAYNE FRANKE • JENNIFER GARNER • HUGH GIBERSON • MARVIN GIDEON • RORY GJOVIG • SUE GRIFFITH • MICHAEL HAMILTON • STEVEN HAUGLAND • LINDA HENNING • STEPHEN HUNT • GEORGE IRVIN • BOBBY JACOBSON • DUANE JACKSON • JAMES JENKINS • LADONNA JOHNSON • PERRY JUNDT • CHARLOTTE KANAVICH • EDWARD KAUTZ • ARNOLD KESSEL • COLLEEN KJOLBERG • PAMELA KOSTNER • LARRY LORENZ • MICHAEL MATSON • JAMES MCCATHRON • JAMES MCMANIGAL • JAMES MONROE • CHRISTINA MORLANG • RONNIE MORLOCK • MICHAEL NUSS • WAYNE OLSON • TOM O'NEILL • DOUGLAS PETERSON • LEO ROLLER JR. • GARNET ROSENDAHL • THOMAS SAUVAGEAU • ROGER SCHINDLER • THOMAS SCHLEDWITZ • KARLA SMITH • MARTIN TIMMONS • DONALD WAGNER • DANIEL WELSCHMEYER • RODNEY WIRTH **ROCKWELL** LYLE AUBIN • CAMERON BALL • BOBBI BEAUCHAMP • JEAN BEAUDOIN • BARRY BEITZ • FRED BENIO • JOHN BOURREE • JEFF BRANT • ARTHUR BRUNET • JOHN CALBERRY • JOHN CHARLTON • WAYNE CROUSE • VERN DAVID • FRED DENNING • LEE EDWARDS • BARRY FEDIUK • STEVE GOODWIN • KELVIN GRIER • SCOTT GUTHRIE • JEFFREY HALLWACHS • TERESA HAMILTON • LYNDON IRVING • DAN JAMES • BYRON JUPE • DALE KUREK • JOANNE MAGEE • BELLA MASSE • DEVEN MCBROOM • SHAWN MCCONAGHIE • ED MCCORMICK • KEN MCINNIS • RANDY MIDDAGH • LEN MINOR • GORDON MOUG • RANDY MUTCH • CARL NELSON • IAN PARSON • JEAN PERRAS • LYLE PROSSER • GORD RIGUIDEL • KEVIN RUDELL • JAMES HAUER • JODY SCHULER • PATRICK SHEEHAN • LARRY SHACKLETON • GARY SHORT • KEN SMILEY OUG SMITH • MARGUERITE SMITH • DERRICK SPARKS • FRED STEWARD • GLEN STEWART • RAY STRANG • BRETT TAYLOR • TRAVIS THACKER • SHELBY THAELL • GORD TORGERSEN • YAN TOTH • R.J. TOTH • JACQUELINE WALD • EMIL WARK • DERRICK WARREN • ANDY WILLIAMS • BOB WILLIAMS **TRI-CITY DRILLING** SHAWN AIRTH • GLEN AYERS • JAN DIN • DAVID BOVEN • CINDY BURTON • HOWARD CHADWICK • JASON CHRISTMAN • PAUL CROCOMBE • HARVEY DANYLUK • KEITH DOREY • PETER ENS • MICHAEL EWASCHUK • HUGH ETT • DALE FRASER • ALICE FRITCH • LOUIS HENLEY • WAYNE HREHORETS • CORBIN JACKSON • HANS JANDL • ALVIN KEBEL • DAVE KIRSCHMAN • CORINE KODY • ROSE MARIE KODY • ORGE KOLMAS • RUSSEL LADOUCEUR • MARSH LAZARENKO • GORD METZNER • IAN MOSSOP • ANDREW PARE • MIKE PRZYSIEZNY • RENE PULKINEN • ALEX RACINE • DARIN RAMSELL OBERT RODIN • MARSHALL RUDYK • RONALD RUSTAD • ROY SCHLAMP • KELLY SCHWARTZ • ELLIOTT SMITH • STEVE STARKELL • ALLAN TAYLOR • GERARD TETREAU • RICK VANEE • RRY WHITTEN • GRANT YESKE **LEYEN OILWELL** GERALD BEAUPRE • BRIAN BUTLER • LEONARD CHRISTIAN • KEN COUGHLIN • DARWIN DEAN • ROBERT DODDS • BARREN AHAM • GERALD GROENEN • GORDON HANSON • WAYNE HARWOOD • DANA JONES • DALE IVERSON • MICHELLE KIRBY • ROGER KIRBY • PAUL KIRS • MILES KOSTERIVA • LAWRENCE MOUREUX • LOHNIE LAMOUREUX • DARLA LESLIE • BOB MARTIN • VERNON MCKINNON • ALVIN MUSTY • BERNARD NEDELEC • RICHARD POLINSKY • JASON POLLOM • DAVID SHIELS OGER SNIDER • JIM STEVENSON • DWAYNE SWAN • BRUCE TAYLOR • LES WALL • LYLE WOOD • BRIAN WOTHERSPOON **ENSIGN DRILLING** OREST BABUIK • WAYDE BARKER • LIE BEGGS • MANFRED BEHNKE • KEN BERNARD • AL BEST • ED BLONDIN • JOHN BONELL • DAVID BOOTHE • TANYA BOYCE • DEBBIE BREDIN • CHARLEY BREWER • JOSEPH BRLEKOVICH AUGUST BRISBOIS • ANGELA BURKE • KELLY CARBRAY • ROB CARDINAL • DENIS CARRIER • LAURIER CARRIERE • RALPH COCK • DONNA CONLEY • KIM CORNISH • YVONNE COVEY • ENN DAGENAIS • PETER DEGENHARDT • GERARD DIRK • BRIAN DOIDGE • DON DRUL • MURRAY DUBE • LEE DURAND • TROY EHRLER • TOM FELLOWS • EVONNE FREDINE • TONY FUTTO DAVE FYHN • RENE GARTON • GUY GAUDREAULT • ROBERT GEDDES • AL GRAY • DON HACHEY • RONALD HAIMILA • CINDY HAMES • DENNIS HANSEN • ROSALIE HARDCASTLE • TERRY NDERSON • ALAN HICKS • DARCY HILDABRAND • WALTER HOPF • CATHERINE HOPKINS • ROB HUNT • KAREN HYDE • CYRIL HYNES • ALLEN INGRAM • DAVID JACKSON • ROBERT JANZEN DARRYLL JOHNSTONE • DENNIS JUSKA • JEFF KAISER • HOWARD KARASIUK • RANDY KENNEDY • PERI KIMBER • WAYNE KIPP • ROY KLEMOLA • RICK KLYNE • JOY KOWATCH • DOUG NE • DON LANGE • JOE LANGE • LES LEIS • DALE LEITNER • LINDA LEKIC • VICTOR LENTZ • LORNE LEVSEN • VERN MACHUIK • RICK MACPHERSON • NICK MALANSKY • RICK MANN BOB MATTSON • ED MATTIE • HERB MCALEENAN • ANITA MCCANN • LYLE MCINTOSH • JOYCE MCLACHLAN • LAURIE MCMANN • PHILIP MCMANN • PAUL MEADE-CLIFT • TOM EDVEDIC • RUSSELL MESSER • RON MEYER • MIKE MILLINGTON • BRIAN MOHR • BRANDON MYKYTIW • MIKE NAPPER • TED NELSON • BERT NEUMEIER • TIM NICHOLSON • ARON NUTLEY • JACQUES OUELLET • ARNET PACHAL • STAN PARADOWSKI • KEVIN PARASUIK • TERRY PATERSON • WALTER PERRIN • RON PETTAPIECE • DAVE ETRZYKOWSKI • DAVE PILIPCHUK • SELBY PORTER • BLAKE PROSAVICH • ALVIN PYLE • ROCK RASMUSSEN • DARRELL ROBERTSON • EARLE ROUTLY • GREG UDOLPH • JIM RYAN • LARRY RYAN • SYLVIA SARGEANT • KEVIN SCHMUTZ • GREGOR SCHOENBERG • BARRY SCHULTZ • JUDY SELBY • LORRAINE SETLA • HARRY SHAW • JOHN SIDOR • RICHARD SIMONTON • BARBARA SIMPSON • ANDY SMITH • DALE SMITH • BILL SPENCE • BRIAN STEEVES • GLEN STEFFLER • GERRY STONE • ORIN STORLE • EUGENIE STUPKA • LENORE SUMMERS • DAVID SURRIDGE • WILF SWAN • DENISE TAYLOR • RICHARD VANDENBON • HANK VAN DRUNEN • RON VERES • BILL WARD • JACK WEIGEL • KEN WILDEBOER • DON WILK • ROBIN WILSON • ROBERT WILMAN • DALE WOLLIN • ED WYLIE • WAYNE ZANDEE • ROBERT ZANUSSO • AND MANY OTHERS


quality
fleet
advanced drilling
techniques
drilling
specialty
services



AS A RESULT OF SEVERAL STRATEGIC ACQUISITIONS, THE ENSIGN GROUP'S DRILLING RIG FLEET GREW TO 134 RIGS IN 1996, REPRESENTING A 72 PER CENT INCREASE OVER THE PREVIOUS YEAR. THE EXPANDED RIG FLEET ENCOMPASSES ALL DRILLING REQUIREMENTS FROM THE SHALLOW DEPTH RANGE TO DEEP OIL AND NATURAL GAS DRILLING REQUIREMENTS. THE ENSIGN GROUP ALSO PROVIDES SPECIALTY DRILLING SERVICES INCLUDING HORIZONTAL DRILLING, UNDER-BALANCED DRILLING AND THE HORIZONTAL RE-ENTRY OF EXISTING WELLS.

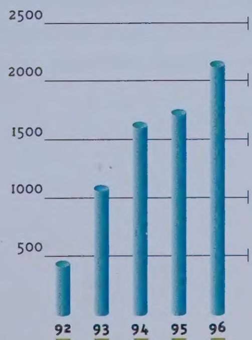
METRES DRILLED — ENSIGN GROUP



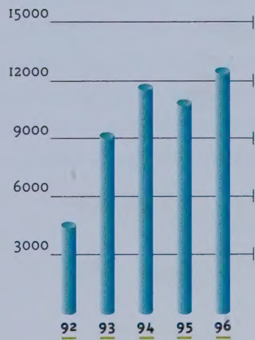
RIG DEPTH CAPABILITIES

	# of Rigs	% of Fleet
0 - 1,000	10	7
1,001 — 2,000	21	15
2,001 — 3,000	78	56
3,001 — 4,000	21	15
4,001 — 5,000	7	5
5,001 +	2	2
Total	139	100

WELLS DRILLED IN WESTERN CANADA — ENSIGN GROUP



WELLS DRILLED IN WESTERN CANADA — INDUSTRY



The Ensign Group's three drilling divisions – Ensign Drilling, Tri-City Drilling and Caza Drilling Inc. – have solid reputations and a depth of resources and expertise. Each division is committed to quality, service and safety and ensuring that the needs of the Corporation's customers are met on a timely and cost-effective basis. The Ensign Group performs ongoing maintenance and certification programs to ensure that its rig fleet meets and exceeds regulatory standards as well as the Corporation's standards of quality and safety. Additionally, each division focuses on cost control to ensure the efficiency and profitability of its operations.

Although Caza Drilling continued to be impacted by low activity levels in the United States, both Ensign Drilling and Tri-City Drilling achieved record utilization rates and higher profitability in 1996. With industry activity expected to remain at high levels throughout 1997, operating and profitability levels for the Corporation's two Canadian drilling divisions will exceed those attained in 1996. Moreover, the U.S. market is showing strong signs of improvement and increases in commodity prices will likely lead to higher levels of drilling activity in 1997 which in turn will have a positive impact on the operations of Caza Drilling.

Ensign Drilling

Ensign Drilling's rig fleet grew to 59 drilling rigs in 1996 compared to 39 rigs in 1995 as a result of the acquisition of the Canadian drilling assets of Simmons Drilling Corp. and through the construction of one slant drilling rig. This growth, in addition to increased industry activity, resulted in a record number of metres drilled for this division in 1996. Higher utilization rates also resulted in improved revenue rates and profitability for Ensign Drilling in 1996 compared to the previous year. Ensign Drilling recorded a rig utilization rate (based on spud to rig release days) of 62 percent in 1996 compared to 59 percent in 1995 and, consequently, this division recorded a 16 percent increase in drilling days for the year ended December 31, 1996. Through increased activity and an expanded rig fleet, Ensign Drilling's market share, based on metres drilled, increased to 12.8 percent in 1996 compared to 8.2 percent in the previous year. Subsequent to year-end, in March 1997, the Corporation acquired five additional rigs from Viper Drilling (1984) Ltd.

Ensign Drilling continues to maintain a strong presence in the horizontal drilling market. Specialty drilling, including horizontal drilling, is becoming increasingly important in Canada as oil and gas producers continue to search for new methods to increase recoverable reserves and increase operating efficiencies. With the benefits of horizontal drilling technology becoming more widely understood and applied, additional contractors have entered the horizontal drilling market. As a result, the premium price differential that was enjoyed by this market segment in 1995 was less evident in 1996. Ensign Drilling drilled 270 horizontal wells in 1996 compared to 227 wells in 1995. Ensign Drilling continues to focus on providing specialty drilling services to its customers by investing time and resources in developing leading edge technology and improving drilling efficiency.

Tri-City Drilling

As a result of Tri-City Drilling's excellent reputation, experienced management team and quality rig fleet, this division continues to rank at the top of the industry in terms of rig utilization rates. With Tri-City Drilling's continued specialization in shallow and intermediate depth wells, utilization rates increased to 68 percent in 1996 compared to 61 percent in 1995.

Tri-City Drilling operated 29 drilling rigs as at December 31, 1996, a 45 percent increase over the 20 drilling rigs operated in the previous year. This growth is a result of the acquisition of eight rigs from Simmons Drilling Corp. and the construction of one additional rig during the year.

Tri-City Drilling's mobility and standards of service to its clients, balanced by commitment to cost-control and profitability, programs of continuous equipment upgrading and maintenance of a skilled and trained workforce, continues to result in high levels of utilization for this division. With industry activity levels expected to exceed 1996 levels, Tri-City Drilling is anticipating another year of record results in 1997.

Caza Drilling Inc.

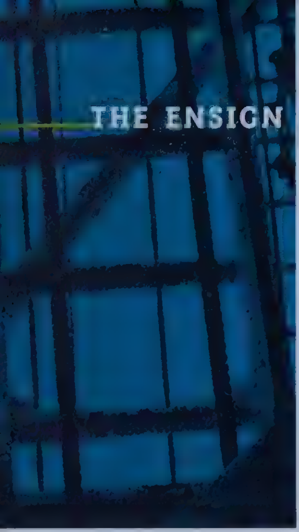
Caza Drilling expanded significantly during 1996 with the completion of two separate acquisitions. In August 1996, Caza Drilling acquired 19 operable rigs from Kenting Apollo Drilling, Inc., a subsidiary of Trimac Limited, and expanded further in November 1996 with the acquisition of the 14 operable drilling rigs and related assets formerly operated by Cardinal Drilling Company, a subsidiary of Lynx Energy Services Corp. As a result of these acquisitions and fleet rationalization, Caza Drilling's rig fleet has grown to 46 rigs at year-end 1996 compared to 19 rigs at December 31, 1995 and this division now operates the second largest drilling rig fleet in the Rocky Mountain region of the United States.

During 1996, the Ensign Group continued with its initiatives to improve the operations of Caza Drilling. This division's management team was augmented during the year with the addition of several key employees formerly associated with Exeter Drilling which had been one of the United States' largest drilling contractors.

The land-based oil and gas drilling industry in the United States continued to operate at very low activity levels in 1996 relative to the activity levels experienced in Canada. Activity levels in the Rocky Mountain Region decreased slightly to 10.0 million feet drilled in 1996 from 10.5 million feet drilled in 1995. Whenever possible, the Ensign Group continues to exchange the technological expertise that it has developed in Canada and the United States.

With further consolidation of drilling contractors in the Rocky Mountain region of the United States and the economies of scale which will be achieved as a result of these key acquisitions, the Ensign Group believes that the profitability of Caza Drilling will improve. Industry utilization rates in the United States continue to be relatively low; however, there is increased optimism for this market and Caza Drilling is well-positioned to take advantage of increased activity.


well servicing
innovative
industry
leader
solid reputation
well
servicing



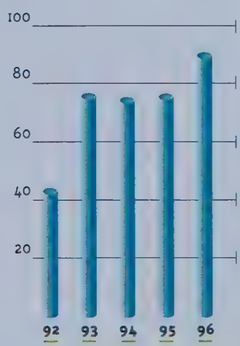
THE ENSIGN GROUP OPERATES THE SECOND LARGEST WELL SERVICING RIG FLEET IN CANADA THROUGH ITS TWO WELL SERVICING DIVISIONS — ROCKWELL SERVICING AND LEYEN OILWELL SERVICING. LOOKING FORWARD, THE ENSIGN GROUP WILL CONTINUE TO MAINTAIN ITS LEADERSHIP POSITION AND PROVIDE ITS CUSTOMERS WITH INNOVATIVE WELL SERVICING TECHNIQUES.

RIG DISTRIBUTION

RIG CLASSIFICATION

	# of Rigs	% of Fleet
Slant Single	9	10
Mobile Single	14	16
Mobile Double	4	5
Mobile Single-Double	49	57
Medium Double	3	4
Heavy Double	7	8
Total	**86**	**100**

UTILIZATION RATE — WELL SERVICING
(%)



The Ensign Group's two well servicing divisions – Rockwell Servicing and Leyen Oilwell Servicing – combine to represent the second largest well servicing contractor in Canada. These divisions, with their focus on continuous quality improvement and innovative use of current technology to satisfy the needs of an expanding customer base, recorded year-over-year growth in operating hours and profitability. The management, marketing and accounting functions are centralized in the Ensign Group's Calgary office. The continued streamlining and expansion of the Corporation's well servicing operations has resulted in reduced overhead costs and improved efficiencies. The Corporation's continued emphasis on reducing operating costs and improving margins, combined with higher activity levels, is expected to result in further gains in profitability for both Rockwell Servicing and Leyen Oilwell Servicing in 1997.

Rockwell Servicing

At year-end 1996, Rockwell Servicing's fleet totalled 40 well servicing rigs compared to 39 in 1995. During 1996, Rockwell Servicing began the construction of three new slant well servicing rigs based on long-term commitments from major customers. All three rigs were completed and were operating by the end of the first quarter of 1997. At that time, Rockwell Servicing will operate a total of nine slant well servicing rigs, the largest slant well servicing fleet in Canada. Slant well servicing to the heavy oil industry continues to be a growing specialty market and the Ensign Group intends to build on Rockwell Servicing's strong reputation for this specialty service in the heavy oil market.

For well servicing rigs actively marketed, Rockwell Servicing's rig utilization rate increased to 92 percent in 1996 from 72 percent in 1995. In addition, the division recorded a 47 percent increase in operating hours in 1996 due to increased industry activity levels and an expanded rig fleet. Operating throughout the Western Canadian Sedimentary Basin, each of Rockwell Servicing's stations experienced higher industry activity levels in 1996 compared to the previous year.

Leyen Oilwell Servicing

Focusing its operations in the heavy oil region around Lloydminster, Alberta, this division achieved utilization rates of 91 percent in 1996 compared to 83 percent in 1995, with operating hours increasing 30 percent over 1995 levels. These increases reflect higher industry activity and an expanded rig fleet which has grown to 41 well servicing rigs at year-end 1996, as a result of the acquisition of the K & S Well Servicing rigs, compared to 35 well servicing rigs as at December 31, 1995. In March 1997, Leyen Oilwell Servicing further expanded its rig fleet with the acquisition of four rigs from Rotation Well Servicing Ltd.

During 1996, Leyen Oilwell Servicing continued to focus on achieving greater profitability and reducing operating costs in addition to upgrading its equipment, performing preventative maintenance and completing the necessary certifications to ensure that its rig fleet continues to meet the highest standards of quality and safety.

Priority Initiatives

The Ensign Group commits substantial resources to managing health, safety and the environment and ensuring that these issues are incorporated into every aspect of the Corporation's business activities. The Ensign Group has six employees dedicated to implementing the necessary management systems to ensure that the Corporation's health, safety and environmental standards are reviewed and achieved on an ongoing basis. During 1996, the Ensign Group invested $1.7 million to carry out the Corporation's heath, safety, training and environmental initiatives. For 1997 the Corporation has budgeted over $2.0 million for these activities.

With the high industry activity levels experienced during 1996, and with this trend expected to continue into 1997, the Ensign Group is taking a proactive approach to training and development due to the high number of new employees entering the oil and gas drilling and well servicing industry. The Ensign Group regularly exceeds the minimum regulatory requirements needed for employment in the oil and gas drilling and well servicing industry. The Corporation maintains rig crews trained in well control, first aid, H_2S (hydrogen sulfide) and the transportation of dangerous goods. In addition, the Ensign Group provides training programs developed internally, directed at specific training requirements through the maintenance of resource libraries of videos and work books at well servicing stations and drilling rigs. These resources allow employees to respond quickly to their training needs.

Each division within the Ensign Group holds annual rig manager conferences where the Corporation further develops the management skills of rig managers and senior drillers. This forum is also the focus of an annual review of operating practices and setting new goals for the next annual period. The Ensign Group's ongoing training and development of its field managers has been a motivating factor contributing to the Corporation's overall success. The effectiveness of these programs is measured in part by the fact that the divisions within the Ensign Group have sustained worker injury rate trends below industry averages.

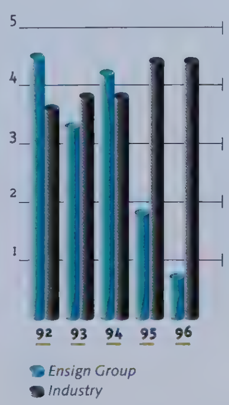
Maintaining a Quality Fleet

The Ensign Group made several planned expenditures during 1996 to ensure that its rig fleet maintains the highest standards of safety, reliability and mobility and, in turn, provides lower "non-productive time" for customers and improves the economic performance of the Corporation. These expenditures have also contributed to the Ensign Group's success in injury prevention.

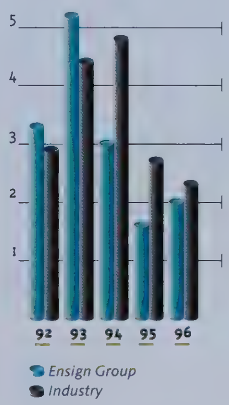
Environmental Stewardship

The Ensign Group places a high priority on protecting the environment and, as such, all of the Corporation's drilling and well servicing managers have completed waste and environmental management training. In addition, at all rig sites the Ensign Group posts its environmental standards and rig crews proactively support the Corporation's objectives to reduce, reuse, recycle and reclaim materials resulting from drilling and well servicing activities.

WELL SERVICING LOST TIME ACCIDENT FREQUENCY
(compensible accidents per 200,000 man hours worked)



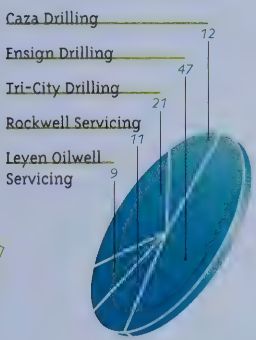
DRILLING LOST TIME ACCIDENT FREQUENCY
(compensible accidents per 200,000 man hours worked)



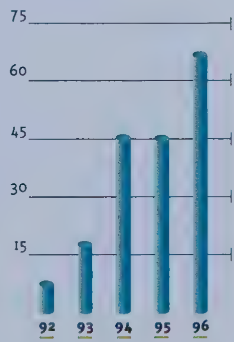
financial
strength
efficient
ensco
management
strong

md&a

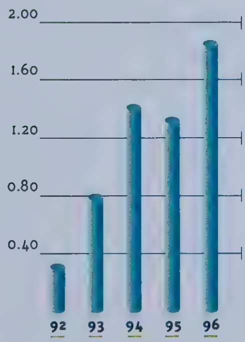
REVENUE BY DIVISION
(%)



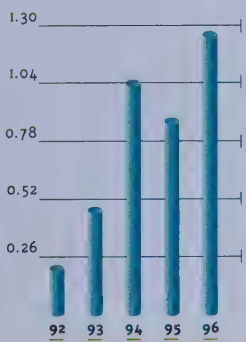
GROSS MARGIN
($ millions)



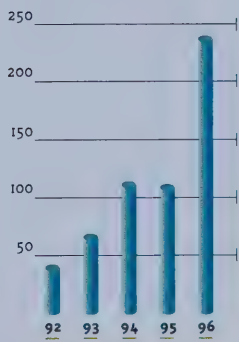
CASH FLOW PER SHARE
($)



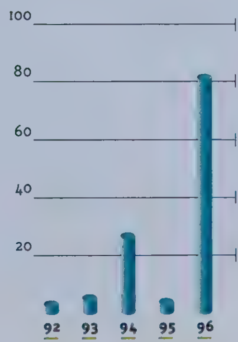
INCOME PER SHARE
($)



TOTAL ASSETS
($ millions)



NET CAPITAL ADDITIONS
($ millions)



Overview

The Ensign Group generated record levels of earnings and cash flow for the year ended December 31, 1996, due to further expansion of the Corporation's rig fleet and continued high levels of activity in the Canadian oil and natural gas well drilling and well servicing industry.

The Ensign Group generated revenue of $245.4 million in 1996, a 36 percent increase over the $180.7 million in revenue generated in 1995. The Corporation's net income for the year ended December 31, 1996 increased to $25.8 million ($1.27 per share) up 51 percent from the $17.1 million ($0.89 per share) recorded for fiscal 1995. Cash flow provided by operations increased 47 percent to $38.2 million ($1.88 per share) for 1996 compared to the $25.9 million ($1.36 per share) generated in 1995.

The Ensign Group achieved record revenue in 1996, reaching $245.4 million compared to $180.7 million in 1995.

Revenue

Revenue for the Ensign Group increased to $245.4 million for 1996 compared to $180.7 million for the prior year. This represents an increase of 36 percent and can be attributed to the strong level of activity in the Canadian oil and gas industry and an increase in the level of oil and gas drilling activity in the Rocky Mountain region of the United States. The Corporation's revenues were further increased due to the increased size of the rig fleet as a result of the acquisitions which were completed in both Canada and the United States in the second half of 1996. The Ensign Group operated an average of 64 drilling rigs in 1996 through its two Canadian drilling divisions, Ensign Drilling and Tri-City Drilling. This is up 14 percent from the 1995 average of 56 drilling rigs. The average number of well servicing rigs operated by the Corporation through the Rockwell Servicing and Leyen Oilwell Servicing divisions increased to 72 well servicing rigs in 1996, up 14 percent from the 1995 average of 63 rigs. The demand for contract drilling and well servicing services was strong throughout fiscal 1996. The strong demand also resulted in improved Canadian revenue rates for the Corporation in 1996 compared to 1995.

Ensign Drilling operated a fleet of 59 drilling rigs at December 31, 1996, an increase of 20 rigs from the 39 rigs which it operated at December 31, 1995. The most substantial portion of this increase is related to the acquisition of the Canadian drilling assets of Simmons Drilling Corp. in October 1996. As a result of the increased fleet size and the strong levels of activity, Ensign drilled 1,057 wells in 1996, representing a 24 percent increase over the 854 wells drilled in 1995.

Tri-City Drilling's rig fleet also increased significantly during 1996 primarily as a result of the acquisition of the drilling assets of Simmons Drilling mentioned above. Tri-City Drilling operated a total of 29 rigs as at December 31, 1996, compared to a total of 20 rigs as at December 31, 1995. During 1996, Tri-City Drilling drilled a total of 1,128 wells, a 23 percent increase over the 914 wells drilled in 1995.

The Ensign Group's United States drilling division, Caza Drilling, operating in the Rocky Mountain region of the United States, experienced a large increase in the size of its drilling rig fleet during 1996. At December 31, 1996, Caza's drilling rig fleet included a total of 46 operable drilling rigs. This compares to a total of 13 operable drilling rigs at December 31, 1995. The increase in the number of rigs can be attributed to the purchase of 19 operable drilling rigs from Kenting Apollo Drilling, Inc. in August 1996. A further 14 operable drilling rigs were acquired from Lynx Energy Services Corp. in November 1996. While the United States drilling industry has experienced a prolonged period of depressed activity and pricing levels, the latter part of the year brought positive signs that the drilling environment may be poised for more prosperous times in the future. The operations for Caza Drilling in 1996 were not material to the operations of the Ensign Group as a whole; however, the continued improvement of drilling activity in the Rocky Mountain region of the United States could provide a significant contribution to the financial results of the Ensign Group in the future.

At December 31, 1996, the Ensign Group's rig fleet totalled 134 drilling rigs and 81 well servicing rigs.

Rockwell Servicing operated a total of 40 well servicing rigs at December 31, 1996 compared to a total of 39 well servicing rigs as at December 31, 1995. The addition of one well servicing rig was part of the acquisition of seven well servicing rigs from K & S Well Servicing Ltd. in September 1996. During 1996, Rockwell Servicing recorded a 47 percent increase in operating hours compared to 1995. In addition, the rig utilization rate for Rockwell Servicing also increased to 92 percent for 1996 compared to 72 percent for the prior year. Well servicing utilization rates are based on 100% = 2,800 operating hours per year.

Leyen Oilwell Servicing increased its rig fleet by six well servicing rigs as a result of the acquisition of the well servicing assets of K & S Well Servicing Ltd. The division operated a total of 41 well servicing rigs at December 31, 1996, compared to 35 well servicing rigs operated at December 31, 1995. The rig utilization rate for Leyen Oilwell Servicing was 91 percent compared to an 83 percent utilization rate recorded in 1995. The operating hours for Leyen also increased by 30 percent reflecting the continued strong levels of activity in the heavy oil area around Lloydminster, Alberta.

Expenses

Drilling and well servicing expenses were $177.5 million for fiscal 1996, an increase of 32 percent over the 1995 total of $134.4 million. The increase is consistent with the increase in the Corporation's revenue level. The primary factors associated with the increase were an expanded rig fleet and higher levels of activity experienced in 1996. Rig maintenance continued to be a high priority for the Ensign Group in 1996. Significant planned expenditures were incurred during the year in order to maintain the rig fleet in peak operating efficiency and also ensure that the highest safety standards are maintained with the Corporation's personnel and equipment.

Depreciation expense increased to $6.4 million in 1996, up 28 percent over the $5.0 million recorded in 1995. This increase is completely attributable to the significant number of acquisitions completed during the year as well as the other capital expenditures which were made during 1996.

General and administrative expenses increased 56 percent during 1996 to $13.6 million from the $8.7 million recorded in 1995. The increase in costs is primarily related to the significant growth the Corporation experienced during the year. The general and administrative costs per revenue dollar increased in 1996 to 5.5 cents per revenue dollar, up from 4.8 cents per revenue dollar in 1995, due to increases in profit sharing bonuses to employees resulting from the Corporation's improved level of profitability.

Interest expense decreased 23 percent to $1.3 million in 1996 from $1.7 million recorded in 1995. The decrease can be attributed to lower utilization of the Corporation's operating lines of credit during the year compared to the levels at which they were utilized in 1995. In addition, the Corporation retired some long-term debt early in the year which initially lowered long-term debt interest expense. This however was offset by the use of a new long-term debt facility to finance the acquisitions which took place later in the year.

Income and Cash Flow

The Ensign Group recorded income of $25.8 million ($1.27 per share) for the year ended December 31, 1996, up 51 percent from $17.1 million ($0.89 per share) for the prior year. This increase can be attributed to a couple of factors. First, and more significantly, the increase in industry activity levels and resulting increases in pricing levels had a positive effect on the Corporation's earnings for the year. Second, the increase in income can also be attributed to the acquisitions made late in the year which significantly increased the Ensign Group's rig fleet.

The Ensign Group recorded an income tax provision for the year ended December 31, 1996 of $20.7 million. This amount can be broken down between a current income tax provision of $14.8 million and a deferred tax provision of $5.9 million. By comparison, the Corporation recorded a current tax provision of $10.0 million and a deferred tax provision of $3.8 million in 1995.

Cash provided by operating activities (before changes in non-cash working capital) increased 47 percent to $38.2 million ($1.88 per share) for 1996 compared to $25.9 million ($1.36 per share) for 1995. Consistent with the increase in earnings, the major factors resulting in the increase in cash flow for the year are the positive equipment utilization effects of high industry activity levels which existed throughout 1996, and the larger drilling and well servicing rig fleet operated by the Ensign Group during the year.

During 1996 the Ensign Group declared and paid Common Share dividends totalling $4.1 million ($0.20 per common share) compared to a common share dividend payment of $2.0 million ($0.10 per common share) in fiscal 1995. These dividend payments were made pursuant to the semi-annual dividend policy as presently adopted by the Board of Directors for the payment of a dividend (in two installments) totalling approximately 20 per cent of the previous year's income per share subject to the ongoing financial needs of the Corporation. In March 1997 an additional $2.5 million was paid as dividends to shareholders on the basis of $0.12 per Common Share.

Acquisitions

The primary use of the cash flow generated by the Corporation during the year was to fund the significant number of capital expenditures made during the year. The Ensign Group had net capital expenditures of $83.2 million in 1996, compared to $5.6 million in 1995. The largest of these 1996 expenditures was the acquisition of the 27 Canadian-based drilling rigs and related assets of Simmons Drilling Corp. in October 1996. Other notable acquisitions made during the year include the purchase of 19 operable drilling rigs and related assets of United States-based Kenting Apollo Drilling, Inc. in August 1996 and the November 1996 purchase of the 14 operable drilling rigs and related assets of Lynx Energy Services Corp. that were operated in the United States as Cardinal Drilling. In addition to these acquisitions, the Corporation also increased its drilling rig fleet by the construction of one slant drilling rig and one conventional drilling rig during 1996. The Ensign Drilling division also purchased two portable top drive units during the year for use in drilling horizontal wells and invested in the construction of a prototype coiled tubing drilling rig demonstrating the Corporation's continued search for and development of new technology. The Ensign Group's well servicing operations also grew with the purchase of seven well servicing rigs from K & S Well Servicing Ltd. in September 1996. Additionally, the Rockwell Servicing division rebuilt two well servicing rigs using existing components and began construction of three new slant well servicing rigs.

The Ensign Group made several strategic acquisitions in 1996 and, as a result, net capital expenditures for the year totalled $83.2 million.

Subsequent to December 31, 1996, the Ensign Group continued to implement its opportunistic growth strategy. In February 1997, the Leyen Oilwell Servicing division acquired the four well servicing rig fleet of Rotation Well Servicing Ltd. Additionally, the three new slant well servicing rigs were completed and placed into service by mid-March 1997. The Corporation now operates a total of 86 well servicing rigs. In March 1997, the Ensign Drilling division purchased five drilling rigs from Viper Drilling (1984) Ltd. The Ensign Group currently operates 139 drilling rigs.

Financial Condition and Liquidity

The Ensign Group had negative working capital of $4.2 million at December 31, 1996, primarily the result of the inclusion of $15.0 million in the Corporation's current portion of long-term debt. This compares to a positive working capital position of $14.4 million at December 31, 1995. The decrease in the working capital position can be attributed to substantially higher capital expenditures incurred in 1996 compared to 1995. The Corporation anticipates that it will be in a positive working capital position by the end of the first quarter of 1997 due to a strong winter drilling season.

The Corporation utilized $27.4 million of its $34.1 million available operating credit facility at December 31, 1996. At December 31, 1995 the corresponding figures were $7.1 million utilized out of a total available line of credit of $19.2 million. The increase in the usage of the operating loans at year end reflect the increase in activity levels for the Ensign Group in both Canada and the United States. An additional factor contributing to this increase is the larger rig fleet in place at year end. The Ensign Group's long-term debt (including the current portion) increased to $51.1 million at December 31, 1996 compared to $7.5 million at December 31, 1995. The increase can be attributed to the financing requirements for the acquisitions which were completed during the year. All debt covenants associated with the long-term debt have been met by the Corporation.

Outlook

The economic environment in which the Ensign Group operates provides for many uncertainties over which the Corporation has little or no control. Among these uncertainties, the fluctuation in oil and natural gas prices has the largest potential impact. These commodity prices affect the exploration and development budgets of the Corporation's customers. As these budgets are expanded or reduced there is a direct impact on the Corporation's operations. The other uncertainties which potentially affect the Ensign Group's operations include foreign exchange rates, performance of the North American economy, taxation and other regulatory pronouncements. The potential impact which one or all of these factors may have on the operations of the Corporation is difficult, if not impossible, to predict with any degree of certainty.

One of the more optimistic developments for the Ensign Group may be the increase in the activity levels in the United States land-based oil and natural gas drilling industry. Activity and pricing levels had been extremely depressed for a substantial length of time coming into 1996. During the mid to latter parts of 1996, the continued strength of commodity prices resulted in a renewal of activity in the United States oil and gas industry. This increase in activity also has had a positive impact on pricing levels experienced during the early part of 1997. The above factors further strengthen the Corporation's belief that its investment in the United States has very little downside and significant upside particularly if the demand for domestic natural gas continues to improve in the Rocky Mountain region. The Ensign Group feels that the expansion of the United States drilling rig fleet in 1996 has the Corporation strategically situated to take full advantage of increased levels of activity and provides for a very optimistic outlook for the Corporation's United States operations.

The overall outlook for the Canadian oil and gas industry remains very optimistic. All indications point towards 1997 being a more active year than 1996. The Canadian Association of Oilwell Drilling Contractors forecasts the number of wells to be drilled in 1997 to be 14,362 wells, compared to the 12,695 wells drilled in 1996. As a result, utilization rates and, consequently, pricing levels are expected to continue to be strong throughout the year. This positive outlook and an increased oil and gas drilling and well servicing rig fleet in Canada and the United States should result in record financial performance for the Ensign Group in 1997.

Management's Responsibility for Financial Statements

The consolidated financial statements and other information contained in the annual report are the responsibility of the management of the Company. The financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate.

Preparation of financial statements is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains a system of internal accounting controls to ensure that properly approved transactions are accurately recorded on a timely basis and result in reliable financial statements. The Company's external auditors are appointed by the shareholders. They independently perform the necessary tests of the Company's accounting records and procedures to enable them to express an opinion as to the fairness of the consolidated financial statements, in conformity with generally accepted accounting principles.

The Audit Committee, which is comprised of outside Directors, meets with management and the Company's external auditors to review the financial statements and reports on them to the Board of Directors. The financial statements have been approved by the Board of Directors.

Selby Porter
President

Glenn Dagenais
Vice President Finance and
Chief Financial Officer

March 27, 1997

Auditors' Report

To the Shareholders of Ensign Resource Service Group Inc.

We have audited the consolidated balance sheets of Ensign Resource Service Group Inc. as at December 31, 1996 and 1995 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Calgary, Alberta
March 27, 1997

Price Waterhouse
Chartered Accountants

Consolidated Balance Sheet

December 31 ($000s)	1996	1995
Assets		
Current assets		
Cash and cash equivalents	$ 1,898	$ 83
Accounts receivable	85,825	44,367
Inventory and other	4,880	3,802
	92,603	48,252
Property and equipment *(note 3)*	138,930	62,066
Other, at cost	3,500	901
	$ 235,033	$ 111,219
Liabilities		
Current liabilities		
Accounts payable and accrued	$ 54,397	$ 23,263
Operating line of credit *(note 4)*	27,370	7,073
Current portion of long-term debt *(note 4)*	15,000	3,538
	96,767	33,874
Long-term debt, net of current portion *(note 4)*	36,132	3,951
Deferred income taxes	17,412	11,385
Shareholders' Equity		
Share capital *(note 5)*	18,540	17,599
Retained earnings	66,182	44,410
	84,722	62,009
	$ 235,033	$ 111,219

Approved by the Board

Director

Director

Consolidated Statement of Operations & Retained Earnings

Year ended December 31 ($000s, except per share data)	1996	1995
Revenue		
Drilling and servicing	$ 245,429	$ 180,665
Expenses		
Drilling and servicing	177,522	134,449
Depreciation	6,430	4,964
General and administrative	13,608	8,677
Interest – long-term	874	860
Interest – other	456	793
	198,890	149,743
Income before income taxes	46,539	30,922
Income taxes		
Current	14,793	9,991
Deferred	5,918	3,783
	20,711	13,774
Income for the year	25,828	17,148
Retained earnings, beginning of year	44,410	29,455
Dividends	(4,056)	(2,193)
Retained earnings, end of year	$ 66,182	$ 44,410
Income per share *(note 5)*		
Basic	$ 1.27	$ 0.89
Fully diluted	$ 1.26	$ 0.87

Consolidated Statement of Changes in Financial Position

Year ended December 31 ($000s, except per share data)	1996	1995
Operating Activities		
Income for the year	$ 25,828	$ 17,148
Charges not affecting cash		
Depreciation	6,430	4,964
Deferred income taxes	5,918	3,783
Cash provided by operating activities before change in non-cash working capital	38,176	25,895
Decrease (increase) in non-cash working capital	8,895	(16,545)
Cash provided by operating activities	47,071	9,350
Investing Activities		
Purchase of property and equipment, net of proceeds of disposal	(83,185)	(5,580)
Other	(2,599)	–
Cash used in investing activities	(85,784)	(5,580)
Financing Activities		
Net increase (decrease) in long-term debt	43,643	(2,465)
Issue of share capital (net of shares repurchased)	941	229
Dividends paid	(4,056)	(2,193)
Cash provided by (used in) financing activities	40,528	(4,429)
Increase (decrease) in cash during year	1,815	(659)
Cash and cash equivalents, beginning of year	83	742
Cash and cash equivalents, end of year	$ 1,898	$ 83
Cash flow per share (note 5)		
Basic	$ 1.88	$ 1.36
Fully diluted	$ 1.83	$ 1.30

For the purpose of the cash flow per share calculations, cash flow is defined as "Cash provided by operating activities before change in non-cash working capital".

1. Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Ensign Resource Service Group Inc. and its wholly-owned subsidiaries. The companies carry on the business of providing contract drilling and well servicing services to the oil and gas industry.

2. Significant Accounting Policies

Income from contracts

Income from contracts is recorded using the percentage of completion method. Losses are provided for in full when first determined.

Inventory

Inventory, comprised of spare rig parts and equipment, is recorded at the lower of cost and replacement cost.

Property and equipment

Property and equipment are recorded at cost. Depreciation is based on the estimated useful lives of the assets as follows:

Asset	Depreciation method	Estimated useful life (years)
Rigs and equipment	Straight-line (residual 20%)	15
Buildings	Straight-line	20
Automotive equipment	Straight-line	3
Office furniture and shop equipment	Straight-line	5

Foreign currency translation

Financial statements of the Company's self-sustaining United States operations are translated to Canadian dollars using the exchange rate in effect at the balance sheet date for all assets and liabilities, and at average rates of exchange during the period for revenues and expenses.

3. Property and Equipment

December 31	1996	1995
Land and buildings	$ 3,667	$ 2,084
Rigs and related equipment	170,955	92,198
Automotive and other equipment	7,968	5,205
	182,590	99,487
Accumulated depreciation	43,660	37,421
	$ 138,930	$ 62,066

Property and equipment with a net book value of approximately $5,682,000 (1995 – $6,000,000) has no tax basis.

4. Long-term Debt

December 31	1996	1995
Bank term loans – at bank prime (1995 – prime plus 1%)	$ 49,417	$ 3,223
Other	1,715	4,266
	51,132	7,489
Current portion	15,000	3,538
	$ 36,132	$ 3,951

At December 31, 1996, the Company had available operating lines of credit totalling $34,112,000 (1995 – $19,228,000) of which $27,370,000 (1995 – $7,073,000) was utilized at the bank prime interest rate (1995 – bank prime plus 1/4%). Collateral for the bank loans and the operating lines of credit consist of a general security agreement, including a floating charge on certain assets, and an assignment of insurance on certain property and equipment.

Principal payments of long-term debt are:

1997	$ 15,000,000
1998	$ 10,643,000
1999	$ 9,072,000
2000	$ 8,000,000
2001 and thereafter	$ 8,417,000

5. Share Capital

(a) Authorized

Unlimited Common Shares

Unlimited Preferred Shares, issuable in series

(b) Outstanding

	1996		1995	
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of year	19,863,229	$ 17,599	18,039,209	$ 15,270
Issued for the following:				
Conversion of Preferred Shares, Series 3	–	–	1,400,000	2,100
Exercise of stock options	566,020	941	444,020	320
Purchased per Normal Course Issuer Bid	–	–	(20,000)	(91)
Balance, end of year	20,429,249	18,540	19,863,229	17,599
Preferred Shares, Series 3				
Balance, beginning of year	–	–	1,400,000	2,100
Converted into Common Shares	–	–	(1,400,000)	(2,100)
Balance, end of year	–	–	–	–
Total share capital, end of year		$ 18,540		$ 17,599

(c) Options

At December 31, 1996, there were stock options granted to employees, directors and officers outstanding in respect of 1,419,490 Common Shares (1995 – 1,488,010) exercisable at prices from $0.70 to $19.00. These options expire at various dates to December 31, 2002.

(d) Common Share Dividends

During 1996, the Company paid dividends of $4,056,000 (1995 – $1,982,000), being $0.20 per Common Share (1995 – $0.10 per Common Share). Dividends of $2,467,000, being $0.12 per Common Share, were declared and paid as of March 31, 1997.

(e) Normal Course Issue Bid

On July 2, 1995, the Company filed a Notice of Intention to make a Normal Course Issuer Bid (the "Bid") with The Toronto Stock Exchange. Under the provision of the bid, the Company purchased 20,000 Common Shares at an average of $4.55 per share. These shares were subsequently cancelled in accordance with the terms of the bid.

(f) Income Per Share and Cash Flow Per Share

Income per share and cash flow per share have been calculated on the basis of the weighted average number of Common Shares outstanding for the year which amounted to 20,319,543 shares (1995 – 19,004,184 shares). Fully diluted income per share and fully diluted cash flow per share have been calculated on the basis of the weighted average number of Common Shares of 21,470,700 shares (1995 – 20,315,194 shares).

6. Financial Instruments

The Company's financial assets and liabilities as at December 31, 1996 included cash, accounts receivable, accounts payable and accrued liabilities, and the operating line of credit. Due to the current nature of these items, carrying amounts are considered to approximate fair value.

Substantially all of the Company's long-term debt is at rates floating with the prime rate and, accordingly, the carrying amount is considered to approximate fair value.

The Company is exposed to credit risk in relation to its accounts receivable at December 31, 1996. As substantially all of the Company's customers are relatively well financed and established oil and gas companies, the level of credit risk is considered by management to be minimal.

The Corporation

Ensign Resource Service Group Inc. was incorporated on March 31, 1987 pursuant to the provisions of the *Business Corporations Act (Alberta)*. Pursuant to a prospectus, on December 15, 1987, the Corporation became a reporting issuer in the Province of Alberta.

Subsidiaries

The following table sets forth the principal operating subsidiaries of the Corporation, the percentage of shares owned, directly or indirectly, by the Corporation and the jurisdiction of incorporation or continuance of the subsidiaries as of December 31, 1996:

Name of Subsidiary	Jurisdiction of Incorporation or Continuance	Percentage of Shares Beneficially Owned or Controlled by the Corporation
Ensign Drilling Inc.	Alberta	100%
Rockwell Servicing Inc.	Alberta	100%
Leyen Oilwell Servicing Ltd.	Saskatchewan	100%
Tri-City Drilling (1968) Ltd.	Alberta	100%
Caza Drilling Inc.	Colorado	100%

Recent Acquisitions

August 15, 1995 – Leased 12 well servicing rigs, including three slant well servicing rigs, that had previously been operated by Drake-Well Servicing Ltd. in the Lloydminster, Alberta area.

August 23, 1996 – Acquired 19 operable drilling rigs based in the Rocky Mountain region of the United States from Kenting Apollo Drilling, Inc.

September 3, 1996 – Acquired seven well servicing rigs previously owned and operated by K & S Well Servicing Ltd. in the Lloydminster, Alberta area.

October 25, 1996 – Completed the largest acquisition in the history of the Corporation with the purchase of 27 drilling rigs from Simmons Drilling Corp., a private Alberta-based contractor.

November 15, 1996 – Acquired 14 operable drilling rigs, operated by Cardinal Drilling in the Rocky Mountain region of the United States, from Lynx Energy Services Corp.

February 25, 1997 – Purchased Rotation Well Servicing Ltd., which owned and operated four well servicing rigs in western Canada.

March 10, 1997 – Acquired five drilling rigs in Canada from Viper Drilling (1984) Ltd.

Additionally, the Corporation completed construction of a slant drilling rig in December 1996 and began construction of three new slant well servicing rigs which were completed and put into service by mid-March 1997.

Description of the Business

All of the Corporation's revenue is derived from the provision of contract drilling and well servicing services supplied through five divisions, which include the subsidiaries listed previously. The following identifies the principal operating divisions of the Corporation and their fleet size as at March 31, 1997:

Division	Fleet Size	Area of Operation
Ensign Drilling	64 drilling rigs	Western Canada
Tri-City Drilling	29 drilling rigs	Western Canada
Rockwell Servicing	41 well servicing rigs	Western Canada
Leyen Oilwell Servicing	45 well servicing rigs	Western Canada
Caza Drilling	46 drilling rigs	Rocky Mountain region, United States

Rockwell Servicing and Leyen Oilwell Servicing carry on business jointly through the Ensign Servicing Partnership.

Seasonality

The oil and gas drilling and, to a lesser extent, the well servicing industry are subject to a degree of seasonality. Canadian operating activities within the industry are generally lower in April and May, during spring break-up. Activity tends to increase in the fall and peaks during the winter months of December through to March. United States operating activities tend to be lowest in the first quarter and build through the remainder of the year.

Ensign Drilling and Tri-City Drilling

The Corporation's Canadian drilling divisions operate a combined fleet of 93 drilling rigs throughout the Western Canadian Sedimentary Basin. The composition of the rig fleet encompasses all drilling requirements from the shallow depth range to the deep oil and natural gas drilling requirements of the foothills region of the Rocky Mountains. Additionally, the Corporation has acquired a level of expertise in specialty drilling areas. Ensign Drilling has developed a leadership role in the area of horizontal drilling, including under-balanced drilling and the horizontal re-entry of existing wells. Over the past five years, the Corporation has continued accumulating expertise and equipment such that it is capable of operating over 60 drilling rigs in the horizontal market, which traditionally has provided better returns than conventional drilling.

Operations for Ensign Drilling are based out of its office and shop facility located in Nisku, Alberta. During the peak of activity in the winter months, Ensign Drilling employs approximately 1,300 people.

Tri-City Drilling, which concentrates on the drilling of shallow to intermediate oil and gas wells, operates out of an office and shop facility in Edmonton, Alberta. During peak periods, Tri-City Drilling employs approximately 600 people.

Drilling services are conducted on a contract basis. Drilling contracts are awarded through either competitive bids or negotiation. The majority of the Corporation's drilling contracts are carried out on a daywork basis where specified drilling services are provided for a fixed charge per day regardless of the number of days required to complete the well. The Corporation is obliged to provide the drilling rig and crews necessary to perform the contract. Accordingly, all operating crews' wages and certain operating and maintenance costs are the responsibility of the Corporation in completing the contract.

Rockwell Servicing and Leyen Oilwell Servicing

The Corporation's oil and gas well servicing divisions operate a combined fleet of 86 well servicing rigs. Both divisions provide shallow to deep well servicing activities to oil and gas producers. Well servicing work is usually performed on a "call up" basis and is not generally subject to contractual arrangements. The amount charged is based on an agreed-to rate per hour which is subject to the type of rig and nature of the service to be performed.

Rockwell Servicing operates 41 well servicing rigs and provides well servicing throughout Alberta, northeastern British Columbia and parts of western Saskatchewan through its operating stations located in Ardmore, Brooks, Grande Prairie and Red Deer, Alberta. Rockwell Servicing has earned recognition in the servicing of heavy oil wells and currently operates nine of 20 available slant service rigs. During periods of peak activity, Rockwell Servicing employs approximately 350 people.

The Leyen Oilwell Servicing division operates 45 well servicing rigs out of its office and shop facility located in Lloydminster, Alberta. The majority of Leyen Oilwell Servicing's work is performed in the Lloydminster area. During peak months, this division employs approximately 300 people.

Caza Drilling

Caza Drilling operates 46 drilling rigs in the Rocky Mountain region of the United States. Generally speaking, the United States land-based drilling climate remains depressed and lags behind the Canadian market in terms of activity and profitability; however, utilization has recently begun to improve with improved commodity prices in the Rocky Mountain region. The Ensign Group remains confident that the Caza Drilling division will generate positive results for the Corporation. Caza Drilling was established with a low overhead which enables it to compete in such a market. To date, the results of Caza Drilling are immaterial to the Corporation. During peak periods of activity, this division employs approximately 800 people.

Competitive Conditions

The oil and gas drilling and well servicing activities of the Corporation are exposed to fluctuating oil and gas prices which affect the exploration and development budgets of its customers. Additionally, the Corporation is subject to legislation governing environmental and safety matters, and to unpredictable and uncontrollable weather patterns which affect the ability to provide contracted services in remote locations.

The industry is also subject to intense competition due to an over-supply of equipment within the industry. Recent equipment rationalizations and consolidations within the industry have improved competitive conditions as a greater proportion of the industry fleet is concentrated in the hands of a few larger contractors which are public companies.

The oil and gas drilling and well servicing industry has seen an increase in activity levels in recent years after a prolonged period of low activity. An indication of activity levels is provided by the number of wells drilled in western Canada over the past five years.

The Corporation achieved growth through periods of low activity by making strategic acquisitions and increasing market share, particularly in specialty market areas.

Year	1991	1992	1993	1994	1995	1996
Number of wells (Canada)	5,388	4,771	9,396	11,871	11,062	12,695

Quarterly Financial Information (unaudited)

($000s, except per share data)

	Quarter Ended							
	1996				1995			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sep.30	Jun.30	Mar. 31
Revenue	**93,012**	**59,420**	**31,065**	**61,932**	46,276	41,070	30,149	63,170
Income	**9,992**	**5,828**	**2,528**	**7,480**	3,519	4,125	2,198	7,306
Per Common Share								
– Basic	**0.49**	**0.29**	**0.12**	**0.37**	0.19	0.21	0.11	0.38
– Fully Diluted	**0.49**	**0.29**	**0.12**	**0.36**	0.18	0.21	0.11	0.37
Cash Flow	**14,755**	**9,995**	**4,029**	**9,397**	5,717	6,791	4,421	8,966
Per Common Share								
– Basic	**0.73**	**0.49**	**0.20**	**0.46**	0.30	0.36	0.23	0.47
– Fully Diluted	**0.71**	**0.47**	**0.20**	**0.46**	0.29	0.34	0.22	0.45

The quarterly information illustrates the seasonality of the Corporation's business.

Share Trading Summary

For the three months ended	High ($)	Low ($)	Close ($)	Volume	Value ($)
1995					
March 31	5.375	3.000	4.350	504,127	1,984,076
June 30	5.250	4.300	4.400	2,306,376	11,032,098
September 30	6.125	4.250	5.625	692,287	3,469,565
December 31	7.250	4.500	7.000	3,495,725	19,278,383
Total				6,998,515	35,764,122
1996					
March 31	**10.500**	**7.000**	**10.250**	**5,688,969**	**48,449,319**
June 30	**11.100**	**9.700**	**10.000**	**2,586,033**	**26,943,601**
September 30	**14.750**	**9.350**	**14.250**	**6,670,279**	**85,129,148**
December 31	**27.000**	**14.000**	**25.250**	**6,693,600**	**141,068,289**
Total				**21,638,881**	**301,590,357**

The Common Shares of the Corporation are listed for trading on The Toronto Stock Exchange and trade under the symbol "ESI".

Selected Financial Data

($000s, except per share amounts and ratios)	1996	1995	1994	1993	1992	1991
Revenue	**245,429**	180,665	174,940	92,715	41,341	33,503
Gross Margin	**67,907**	46,216	46,606	18,886	8,647	6,515
Gross Margin – % of Revenue	**27.70%**	25.58%	26.64%	22.83%	20.92%	19.45%
Depreciation	**6,430**	4,964	3,412	2,213	1,407	1,375
Net Income	**25,828**	17,148	19,165	8,258	3,438	1,361
Per Common Share						
Basic	**1.27**	0.89	1.06	0.49	0.23	0.10
Fully Diluted	**1.26**	0.87	0.95	0.43	0.21	0.09
Cash Flow	**38,176**	25,985	25,703	13,552	4,709	2,878
Per Common Share						
Basic	**1.88**	1.36	1.44	0.82	0.34	0.21
Fully Diluted	**1.83**	1.30	1.26	0.71	0.28	0.17
Net Capital Expenditures	**83,185**	5,580	28,352	6,990	4,850	7,833
Long-term Debt	**51,132**	7,489	9,954	7,929	9,787	7,961
Shareholders' Equity	**84,722**	62,009	46,825	27,749	16,948	11,563
Long-term Debt to Equity	**0.6:1**	0.1:1	0.2:1	0.3:1	0.6:1	0.7:1
Weighted Average Common Shares Outstanding	**20,319,543**	19,004,184	17,874,053	16,488,678	13,813,997	13,738,594
Closing Share Price, December 31	**25.25**	7.00	5.00	5.63	1.45	1.00

Ensign Drilling

Selby Porter
President

Bob Geddes
Vice President and General Manager

Wayne Kipp
Vice President Operations

Earle Routly
Assistant General Manager

Tom Fellows
Sales and Marketing Director

Rick Simonton
Contracts Manager

Bob Zanusso
Operations Manager

Dave Fyhn
Manager Administration

Paul Meade-Clift
Engineering Manager

Wayde Barker
Dale Leitner
Ernie Massner
Ken Wildeboer
Dale Wollin
Drilling Superintendents

Rob Wilman
Safety Coordinator

Ralph Cock
Equipment Manager

Hank van Drunen
Shop Manager

Evonne Fredine
Chief Accountant

Cindy Hames
Personnel Coordinator

Walter Hopf
Field Safety Coordinator

Don Juska
Safety and Training Coordinator

Peri Kimber
Administrative Assistant

Herb McAleenan
Gregor Schoenberg
Sales Engineers

Tom Medvedic
Controller

Arnet Pachal
Purchasing Coordinator

Judy Selby
Contracts Administrator

Tri-City Drilling

Alex Racine
President

Rose Marie Kody
General Manager

Hans Jandl
Mike Przysiezny
Rick Vanee
Drilling Superintendents

Marsh Lazarenko
Safety and Training Coordinator

Caza Drilling Inc.

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President

Ed Kautz
Managing Director

Mike Nuss
General Manager, Operations and Contracts

Tom Schledwitz
General Manager, Operations and Engineering

Steve Hunt
Controller

Charlie Cogdill
Wayne Fisher
Hugh Giberson
Jim McCathron
Drilling Managers

Dan Welschmeyer
Safety Coordinator

Helen Cardon
Office Manager

Leyen Oil Well Servicing

Glenn Dagenais
President

Bryan Toth
Vice President and General Manager

Darwin Dean
Operations Manager

Art Brunet
Field Safety Coordinator

Vern McKinnon
Shop Manager

Emil Wark
Chief Accountant

Field Superintendents

Barren Graham
Bonnyville

Miles Kosteriva
Kitscoty

Dick Polinsky
Maidstone

Roger Snider
Wainwright

Rockwell Servicing

Glenn Dagenais
President

Bryan Toth
Vice President and General Manager

Lyle Aubin
Operations Manager

Ken McInnis
Marketing Manager

Art Brunet
Field Safety Coordinator

Gord Moug
Pat Sheehan
Derrick Sparks
Sales Representatives

Marguerite Smith
Chief Accountant

Station Managers/ Field Superintendents

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Fred Benio
Deven McBroom
Ardmore

Lyndon Irving
Brooks

Fred Steward
Grande Prairie

R.J. Toth
Gord Riguidel
Red Deer

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Jack Donald
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Parkland Industries Ltd.

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Edco Financial Holdings Ltd.

James B. Howe◊†*
President
Bragg Creek Financial Consultants Ltd.

Donald Jewitt◊†
President
Veteran Resources Inc.

Len Kangas†
Independent Businessman

Selby Porter
President
Ensign Resource Service Group Inc.

John Schroeder◊*
Chief Financial Officer
Parkland Industries Ltd.

George S. Ward
Independent Businessman

Committee Members:
◊ Audit
† Corporate Governance
* Compensation

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Chairman

George S. Ward
Vice Chairman

Selby Porter
President

Glenn Dagenais
Vice President Finance and
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